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ANTM.N - Q3 2021 Anthem Inc Earnings Call

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OVERVIEW:

ANTM reported 3Q21 operating revenue of $35.5b, GAAP EPS of $6.13 and adjusted EPS of $6.79. Expects 2021 adjusted EPS to be greater than $25.85.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Anthem's Third Quarter Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the conference over to the company's management. Please go ahead.

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Stephen Vartan Tanal - *Anthem, Inc. - VP of IR*

Good morning, and welcome to Anthem's third quarter 2021 earnings call. This is Steve Tanal, Vice President of Investor Relations, and with us this morning on the earnings call are Gail Boudreaux, President and CEO; John Gallina, our CFO; Peter Haytaian, President of our Diversified Business Group and IngenioRx; Morgan Kendrick, President of our Commercial & Specialty Business Division; and Felicia Norwood, President of our Government Business division.

Gail will begin the call with a brief discussion of the quarter, recent progress against our strategic initiatives and close on Anthem's commitment to its mission. John will then discuss our financial results and outlook in greater detail. After our prepared remarks, the team will be available for Q&A.

During the call, we will reference certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are available on our website, antheminc.com.

We will also be making some forward-looking statements on this call. Listeners are cautioned that these statements are subject to certain risks and uncertainties, many of which are difficult to predict and generally beyond the control of Anthem.

These risks and uncertainties can cause actual results to differ materially from our current expectations. We advise listeners to carefully review the risk factors discussed in today's press release and in our quarterly filings with the SEC.

I will now turn the call over to Gail.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks, Steve, and good morning, everyone. We're pleased to talk with you about another strong quarter.

This morning, we reported third quarter GAAP earnings per share of $6.13 and adjusted earnings per share of $6.79, ahead of expectations, despite another surge in COVID that created challenges throughout the country.

Once again, Anthem continues to deliver on stakeholder commitments, accelerate growth in every core benefits business and made considerable progress towards our long-term strategy to transform from a health benefit company to a lifetime trusted partner in health.

Addressing the whole person is essential to becoming a trusted lifetime partner in health. Responding to the pandemic has allowed us to instill new agility and innovation into the business, particularly around solutions for physical health, pharmacy, behavioral and social needs, with an emphasis on maternal health, access to nutritious foods and health disparities. Ultimately, we believe we're only as healthy as the communities we live in and recognize our important role in ensuring everyone has an opportunity to be and stay healthy.

As the health care paradigm shifts, we're accelerating work to simplify members' and clients' everyday experiences and meet their evolving needs through a personalized experience. Moreover, there's abundant opportunity to modernize further and reinforce our position, leveraging our technology, predictive analytics and innovative products and services to bring an enhanced experience only Anthem can offer.

We expect whole person health care, powered by digital technologies, to help us achieve our goal of driving commercial medical cost trend down towards the rate of CPI by 2025. Currently, we're exploring more ways to drive differentiated value across medical and pharmacy.

Our insight-driven approach is fueling new programs that drive better cost and quality outcomes for our members, including in the areas of behavioral health and autoimmune disease.

Additionally, we recently launched a new offering to test the full suite of our capabilities in the form of a virtual primary care first product, which we expect to demonstrate meaningful reductions in overall cost of care and greater member satisfaction.

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We are already selling virtual-first risk-based commercial plans in certain markets across each of Anthem's 14 Blue states for the 2022 plan year, featuring simplified plan designs, 24/7 service and leveraging our high-performing networks that enable affordable price points.

We've also seen strong interest in these capabilities from our fee-based clients, and we'll be embedding virtual primary care with several large fee-based clients throughout 2022.

At the same time, innovative product offerings like Sydney Preferred, which allows employers to customize a digital-first health care experience for their employees, are gaining considerable momentum. To date, more than 50 national accounts have signed up for Sydney Preferred, representing nearly 900,000 commercial members.

To help accelerate our digital platform, we've elevated Rajeev Ronanki to President of Digital Platform. Rajeev will drive the commercialization of our digital capabilities for consumers and care providers as we reimagine the health ecosystem.

We will share notable third quarter highlights and business-driving initiatives for the balance of fiscal 2021 starting with our Medicaid business, which is performing well. Our Healthy Blue plan, in partnership with Blue Cross Blue Shield of North Carolina, has quickly become the largest Medicaid-managed care plan by membership in North Carolina and the leading choice for consumers.

Its success, coupled with the ongoing suspension of eligibility redetermination, drove Anthem's total Medicaid membership above 10 million at quarter end, exceeding our internal expectations. Our commitment to members and their communities has never been stronger, and we continue to develop innovative solutions to meet their unique holistic health needs.

As a result, our focus on reducing health disparities and inequities remains vital to the value Anthem offers state partners. This is reflected in our momentum, along with our 100% RFP win rate year-to-date. Looking further ahead, Anthem will launch another new statewide Medicaid-managed care contract in Ohio in the summer of 2022.

After earning the city of New York's group Medicare Advantage contract last quarter, we added several new group MA customers in the third quarter for January 1, 2022, start date and have a growing pipeline of new prospects. As part of our strategy to deepen our Medicare Advantage market penetration, we remain focused on converting commercial age out to MA relationships and preparing for a flawless January launch of our group Medicare Advantage plan for New York City's retirees.

Customized solutions at scale underpin our approach to individual Medicare Advantage benefits for 2022. Many of our MA plans will allow customers to choose what's best for them from a menu of innovative whole health benefit. For example, in some areas, the program will include a Kroger grocery cart; generous over-the-counter benefits; and up to 60 hours of in-home support to assist with light housekeeping, errands and companionship. We expect these and other benefit enhancements to help drive another year of double-digit growth in our individual Medicare Advantage membership next year.

Medicare Star Ratings continue to be a focused area across Anthem, and the ratings released 2 weeks ago show we've made solid progress. We're particularly proud, HealthSun received a 5-star rating for the fifth consecutive year, the only Medicare Advantage health plan in Florida to accomplish such an achievement.

For the 2023 payment year, we anticipate approximately 73% of members and plans that CMS rated as 4-plus stars, up from 58% on a comparable basis a year ago. That figure will move even higher with the city of New York's group Medicare Advantage contract launch next year.

At the same time, investments in provider partnerships are accelerating Anthem's evolution toward high-quality value-based care. This is necessary to drive improved outcomes and cost of care across all of our benefits businesses and is critical in Medicare Advantage, where it impacts reimbursement through STAR ratings.

This year, more than 60% of our Medicare Advantage spending will be in risk-sharing arrangements. Based on our current contract, we expect that to increase to more than 70% in 2022, with approximately 30% of Medicare Advantage spending in fully capitated risk arrangements.

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Investments in our primary care partnerships, in particular, will support members and drive growth through the expansion of value-based care, leading to an even larger proportion of our members in 4-plus star contracts over time.

We recognize there's still more work to do, and we'll continue our efforts to raise customer satisfaction by aligning incentives with care providers to improve quality and medication adherence, while simultaneously enhancing our member experience, accelerating our use of data and analytics and leveraging IngenioRx as our pharmacy benefit manager.

Lastly, a few highlights of the strong growth we see in our commercial business. We're nearing the end of the most robust national account selling season in Anthem's history. Volume of RFPs was down, but average size was up considerably, and we won a disproportionate share of new business and expanded services with our existing clients.

IngenioRx is also showing exciting growth with a more than fivefold increase in new sales at this point in the selling season compared to the relatively depressed base a year ago when the pandemic weighed heavily on employer decision-making.

The consistent theme across all of our businesses is that each continues to produce strong organic growth. This drove medical enrollment to more than 45 million U.S. consumers, strengthening Anthem's position as the largest health insurer in America by membership.

I'm pleased with the progress we're making towards delivering our strategy and want to share 2 recent leadership changes to accelerate our efforts. Pete Haytaian will lead our Diversified Business Group and IngenioRx, both of which are critical components of our growth strategy. Pete has an impressive track record of growth and innovation in his previous roles leading Anthem's Commercial and Government businesses. With Pete's transition, we're confident our Commercial & Specialty Business division will maintain its strong momentum under leadership of Morgan Kendrick, who's driven market-leading growth across critical lines of our Commercial business, including national accounts and, most recently, as President of Anthem's Commercial West market, our largest region.

The breadth and depth of our collective leadership ensures we stand ready to deliver on our promises to stakeholders across all areas of our business and will guide Anthem to long-term sustainable growth. It's a privilege to work alongside such a strong group of leaders committed to advancing our purpose and mission.

In summary, our actions and the focus and discipline we've brought to the business have positioned Anthem for the next several years of growth. Our strategy to extend our role from a partner in health benefit to a lifetime trusted partner in health is resonating in the marketplace as evidenced by our growth.

Our response to COVID brings a new level of agility and speed to the business, along with more opportunities to reach consumers and care providers than ever before, and we continue to simplify and personalize our member relationships with relevant benefits and enhanced innovative experiences where and when they want.

With that, I'll turn the call over to John to discuss our financial results in more detail.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you, Gail, and good morning to everyone on the line.

As Gail mentioned earlier, we reported third quarter adjusted earnings per share of $6.79, an increase of approximately 62% year-over-year driven by strong growth across all of our businesses. This growth was a result of focused execution against our strategic priorities, despite a challenging backdrop created by another surge in COVID.

Our third quarter results once again demonstrate the balance and resilience of our core benefit businesses and the strong growth momentum we are producing across the board.

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We ended the quarter with 45.1 million members, growth of 2.4 million lives year-over-year, or 5.7%, including growth of 730,000 during the quarter, led by the successful launch of our HealthyBlue Medicaid plan in North Carolina.

In addition to the 426,000 members gained in that state, we produced incremental organic growth of nearly 380,000 members during the quarter driven by strong growth in our Medicaid and commercial risk-based businesses. This growth was partially offset by continued in-group attrition in our group fee-based business, consistent with our expectations.

Operating revenue in the third quarter was $35.5 billion, an increase of 16% versus prior year quarter and nearly 18% on a HIF-adjusted basis. The increase was driven by higher premium revenue associated with strong membership growth in our Medicaid, Medicare and commercial risk businesses as well as rate increases to cover cost trends and ongoing momentum in our diversified service businesses, including IngenioRx.

The benefit expense ratio for the third quarter was 87.7%, an increase of 90 basis points compared to the prior year quarter driven by the repeal of the health insurance tax in 2021. Excluding the impact of the HIF, our medical loss ratio would have decreased by approximately 50 basis points driven by unfavorable rate adjustments in our Medicaid business in the third quarter of 2020.

All in, the cost of care was above what we would consider to be normalized or baseline levels in the third quarter of this year driven by higher COVID cost in the month of August and September, but medical costs were nonetheless better than we had expected for the quarter overall, with lower non-COVID utilization helping absorb the higher-than-expected COVID-related cost.

Our third quarter SG&A ratio was 11.1%, a decrease of 620 basis points from the 17.3% in the prior year quarter primarily due to the charges we took last year related to business optimization and the Blue Cross and Blue Shield Association litigation settlement.

Excluding charges from the base year and the impact of the repeal of the health insurance tax, our SG&A ratio would have decreased by approximately 130 basis points driven by leverage associated with growth in operating revenue, partially offset by higher spending to support our growth and our transition to becoming a digital enterprise for health.

Operating cash flow during the quarter was $2.5 billion or 1.7x net income.

Turning to our balance sheet. We ended the third quarter with a debt-to-capital ratio of 38.9%, down approximately 100 basis points from the 39.9% as of the end of the second quarter. The decrease was driven by growth in shareholders' equity associated with our earnings in the quarter and a reduction in commercial paper outstanding.

We continue to maintain a prudent posture with respect to reserves given the ongoing uncertainty associated with the COVID-19 pandemic and lengthening and cycle times that we have seen since the pandemic began.

We ended the third quarter with 46.8 days in claims payable, a decrease of 1.3 days compared to the second quarter and an increase of 5.7 days as compared to the prior year quarter.

The timing of our acquisition of MMM inflated days in claims payable in the second quarter and drove the sequential change. Excluding timing and related impacts associated with the acquisition, our days in claims payable would have increased by 0.2 days sequentially.

Given strong performance year-to-date, we are raising our guidance for full year adjusted earnings per share to greater than $25.85 from greater than $25.50, putting us at the high end of our long-term annual adjusted earnings per share growth target of 12% to 15%.

Please note that this guidance continues to reflect the total COVID and non-COVID costs combined exceeding baseline in every month of the fourth quarter and assumes a similar overall net headwind from COVID for the year relative to our prior guidance.

Given significant outperformance in the third quarter on our investment income line, we have increased our full year outlook for investment income by $100 million to approximately $1.2 billion, which is $260 million above our initial outlook of $940 million.

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Much of the outperformance in this area stems from stellar results in our alternative investment portfolio year-to-date that we would not expect to recur. Accordingly, we believe that there is at least $200 million of nonrecurring upside in the investment income line that should be removed when assessing the appropriate base for earnings growth for 2022, equating to approximately $0.65 of earnings per share in 2021 and implying a baseline for growth entering 2022 of $25.20.

Most importantly, our businesses are performing well with strong growth momentum that we expect will carry into 2022. Although we will not provide specific guidance for next year on this call, I would now like to shift focus to the tailwinds and headwinds that we are considering into next year.

Starting with the tailwinds. Recall that our 2021 guidance continues to embed a significant net headwind related to the effects of COVID. While it is too early to declare how much of the overall net headwind we will be able to earn back in 2022, we do believe that we will recover a portion of it, resulting in a year-over-year tailwind.

Based on our strong competitive positioning, we expect another year of double-digit membership growth in our individual Medicare Advantage membership. We also expect strong growth in our Commercial membership, aided by what is shaping up to be the strongest national account selling season in the history of the company.

We expect accretion from the annualization of earnings of our acquisitions of MMM and myNEXUS. And we expect an EPS lift from our share repurchase program, which was opportunistic during recent periods of volatility in our stock price.

Our tailwinds will be weighed against known headwinds, and these include: the dilution associated with the first year of operations of our new group Medicare Advantage contract serving New York City's retirees, which we continue to expect will launch on January 1; as well as dilution related to the start-up and launch of our new Medicaid contract in Ohio, which we expect to begin on July 1, 2022; in addition, the resumption of Medicaid eligibility redeterminations assuming a return to a more normal operating environment; and finally, the nonrecurrence of the upside in the investment income line this year that I had described earlier.

Based on what we know today, we believe our tailwinds will largely offset our headwinds, enabling us to reaffirm our commitment to growth in adjusted earnings per share of at least 12% in 2022 after adjusting for the portion of investment income that we have identified as nonrecurring.

We look forward to providing more specific guidance on our fourth quarter earnings call when we will discuss our 2022 outlook in more detail.

In closing, we continue to execute against our strategic growth priorities and are pleased to have delivered another quarter of strong growth and continued reinvestment in our business, all while maintaining a solid balance sheet given the ongoing uncertainties associated with the pandemic.

And with that, operator, please open the line to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) For our first question, we will go to the line of A.J. Rice with Credit Suisse.

Albert J. William Rice - *Crédit Suisse AG, Research Division - Research Analyst*

Appreciate the headwinds and tailwinds for next year that you're offering. I guess, when you look at those items that you've delineated, a lot of them looked like they're pretty well set at this point.

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What would be the ones where there's the greatest potential variability? I'm assuming the COVID-related is -- how much of that you get back next year is probably one, but can you comment on that, where there's the greatest variability among those items?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

A.J., thank you for the question. Associated with the headwinds and tailwinds, of course, we do want to look at them in their entirety. But as you think about the potential variability, COVID has the absolute most uncertainty of any line item on there. I mean it's been a incredible situation that we've been through as a country since March of 2020, and COVID continues to have uncertainty associated with it.

The New York group retiree business are still going through their enrollment process, so we don't have the absolute exact number of lives lined up at this point in time, and so there's some variability there. But you're correct, we do have some pretty good line of sight on most of the rest of them, but COVID is clearly the lion's share of the uncertainty at this point.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And A.J., I'd add to John's response that one of the things that we do feel very good about is the underlying strength and the core of our -- all of our benefits businesses. Our growth has been strong, and I think we've been performing very well in line with the expectations we set. Thanks for the question.

Operator

Next, we'll go to the line of Justin Lake from Wolfe Research.

Justin Lake - *Wolfe Research, LLC - MD & Senior Healthcare Services Analyst*

Just wanted to clarify something, then a question. The clarification is just wanted to make sure, John, you were talking about 12% growth, and you talked about that off a $25.20 jump-off point. So that's number one.

And then just the question is on cost trend. It looks like the Government margins were materially stronger than Commercial in the quarter. So you gave some overall cost from your commentary, but was hoping you could give us some trend breakdown between Commercial, Medicaid and Medicare, how that performed in the quarter versus that slightly above normal overall discussion you had.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Thanks, Justin. I appreciate the questions. In terms of the jump-off point for 2022, you are correct. We've quantified our investment income outperformance for the year. We believe that there's at least $200 million that's unlikely to recur, and so that $200 million equates to approximately $0.65 of earnings per share. And you take that off of our updated guidance, and we believe the appropriate jump-off point for 2022 growth is $25.20. So I appreciate the opportunity to clarify that.

Associated with the various lines of business, the Commercial profitability is still very, very good. However, Commercial had the surge of COVID in August and September, was really more significantly pronounced within the Commercial line of business than it was in the other 2 lines of business. We took the opportunity to reserve prudently within the Commercial line for that spike and to build Commercial reserves as a result of what we're seeing at that point in time. Fortunately, non-COVID came in much lower in September across all lines of business, which allowed our quarter to come out in a really, really good place.

Medicare was very much consistent with expectations. Medicaid was actually a little bit better than expectations for the quarter. And just as a reminder, we had guided to be above baseline cost for COVID and non-COVID combined for each of the 3 months in the third quarter, and we

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were. We were just ended up being better than our expectations. So -- but the Commercial issue was really had to do with the spike in August associated with COVID. Thank you for the question.

Operator

Next, we'll go to the line of Lance Wilkes from Bernstein.

Lance Arthur Wilkes - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Could you talk a little bit about the strategy and vision for diversified in Ingenio with Pete moving into that role? And maybe as part of that, talking a little bit about the pipeline of opportunities in the Diversified and Ingenio book and as well as selling government services to other Blues.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the multitude of questions. I'll ask Pete in his new role to respond, Lance.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Diversified Business & IngenioRx*

Thanks, Lance. No, I really appreciate it. I think I'll touch on the growth associated with Ingenio first and then reference Diversified Business Group.

And I do want to thank Gail and the team for putting me in this position. I do think I'm in a unique position having run Government and Commercial to have a perspective on this. And I think working collectively as an enterprise, we can do very well in penetrating the Anthem portfolio to a much greater degree.

But as it relates to your question on Ingenio and growth in Ingenio, we work very closely with the Commercial business. And as we've talked about before, the greatest opportunity for us is penetrating the self-funded business.

I'd say that activity for us has really picked up this year relative to last year. We're seeing really nice success, Lance, down market on the smaller side of the business and the middle market. So we're definitely seeing more activity there, and we're also seeing a lot more wins from that perspective.

And as we've talked about, that's really a sweet spot from a financial and profitability perspective for us, so it's a really good position for us to be in.

On the larger end of the market with some of the jumbo accounts, we are also seeing activity pick up as it relates to pharmacy, but it is a competitive space, and we see the power of incumbency being a little more significant and a factor there.

So heading into 2022, as it relates to Ingenio, we feel really good about our growth trajectory and our performance, and net membership growth will be improved relative to what we've seen in 2021.

As it relates to the Diversified Business Group and our strategies, and then I'll also talk strategically about Ingenio a bit, I'm really excited about where we are. I mean, if you think about where the puck is going in health care, you think about the significance of specialty pharmacy, you heard Gail talk earlier about virtual and the opportunities for virtual even in pharmacy, there's tremendous opportunity for that business to continue to grow. We're at the beginning of the evolution of, I think, that pharmacy business, and there's a great opportunity there for us and to penetrate the Anthem business.

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And then as it relates to the DBG portfolio, if you think about the verticals that we talked about at Investor Day and the opportunity there, a tremendous opportunity. So you think about behavioral health and the opportunities there with Beacon as a leading asset in the space, and we think there's tremendous opportunity to grow that business and diversify that business.

When you think about site of care and redirection, it becomes hugely important as it relates to the Commercial business and cost of care. And you think about assets like AIM and myNEXUS, a recent transaction where we're seeing tremendous success. And then you think about managing the chronically ill and the great assets we have there around CareMore and Aspire, I would say this, Lance, that my -- and I've only been on the job for about 1.5 weeks, so I don't want to be too presumptuous here.

But the opportunity to penetrate Anthem is very significant across our entire portfolio, Medicare, Medicaid and Commercial. But I also think there's tremendous external opportunity. So I look forward to leading this and working with my colleague, Felicia and Morgan, on growing the business together.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you, Pete, and thanks for the question, Lance. I think to sum up what Pete has shared, this really is part of our ongoing journey and evolution at Anthem that we shared with you at our Investor Day. And it really is part of our transformation from a health benefits company to truly a trusted lifetime partner in Health.

And we see significant opportunities, and I think this shows sort of the maturing of the strategy we shared. So thanks for the question.

Operator

Next, we'll go to the line of Matthew Borsch from BMO Capital Markets.

Matthew Richard Borsch - *BMO Capital Markets Equity Research - Research Analyst*

Hoping you could comment on the aftermath of the Blue settlement, particularly as it relates to how you see competition among the Blues and your role in that changing, maybe intensifying as we go into next year and after.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. Matt, thanks for the question. We are still in the midst of that litigation, and the settlement is ongoing, so I won't comment. I think it's inappropriate to comment at this time.

But given the tone of your question, I think it's really important, we've had a long history, quite frankly, of partnering with Blues, in addition to working with them on accounts that are in our service area as part of the seeding process. And so we expect that to continue, expect, obviously, to offer the capabilities that we have.

Pete just shared with you what we're doing with IngenioRx. We also think our Diversified Business capabilities are going to be incredibly important in some of our digital platform capabilities that we've also offered to other Blues.

So can't really comment on where we are in terms of that litigation because it's not finally settled yet, but we feel that there's a significant amount of opportunities for us even outside of the settlement to work with Blue partners across the country. Thanks for the question.

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Operator

Next, we'll go to the line of Ralph Giacobbe from Citi.

Ralph Giacobbe - *Citigroup Inc. Exchange Research - Research Analyst*

I guess, just wanted to go to membership. ASO dipped, and you cited some of the economic backdrop, but commercial risk was up nicely sequentially. So is there some shift between the two? Or maybe just any thoughts around those dynamics.

And then I want to ask specifically around individual enrollment as well, up pretty nicely sequentially. And John, to your comments around higher COVID costs, was there any disproportionate pressure on the exchanges specifically that sort of weighed on margins in the segment? And then just hoping you could talk about your positioning on the exchanges for 2022 and expectations for growth there.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Ralph, thanks for the question. I'm going to ask Morgan Kendrick, who is leading our Commercial business. He's also, though, been intimately involved in these to respond to your questions. Please, Morgan.

Morgan Kendrick - *Anthem, Inc. - Executive VP & President of Commercial and Specialty Business Division*

Thanks, Gail. And Ralph, thanks for the question. There was a lot there, and when you talk about your comments about the reductions in the large group business, that's certainly in line with our expectations. We were expecting reduction on our fee-based business.

We've had, as you indicated, noted, nice growth on the risk-based business across the segment. Individual, as you've noted, has benefited from a long extending special enrollment period, so we've seen month-over-month growth there.

Also when you look at our large group, small group business, we've seen month-over-month growth in sales exceeding lapses. And notably, our large group business has performed quite well. In fact, 23 of the last 25 quarters, our sales have exceeded lapses.

Looking forward into the new year, clearly, it's a competitive geography and a competitive market when you look at individual in ACA. It's one of those that I would characterize as just rational nonetheless and one that we've -- not inconsistent with our strategies in the past.

We take a very disciplined approach. We look at this market by market, county by county. And in fact, as we expand next year for 2022, we're going to be in 83% of the counties that we can serve. That's up from 71% from the prior year.

And this is most notably done by leveraging our unique provider partnerships, leveraging the scale and density we have in our geographies to provide value for the market. Again, the strategy is not a shortsighted one, and we're confident the pricing is appropriate on our modeling of our forward trends. So thank you again for the question.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. And one last thing, Ralph. You asked a question about anything distinctive about the individual relative to COVID. And I would say no. I mean, our individual business has performed in line.

So across the board, we saw, as John shared, higher COVID spikes in Commercial, but individual is not unique or distinct that we feel that we're appropriately positioned in that market.

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Operator

Next, we'll go to the line of Lisa Gill from JPMorgan.

Lisa Christine Gill - *JPMorgan Chase & Co, Research Division - MD, Head of U.S. Healthcare Technology & Distribution Equity Research and Senior Research Analyst*

I just want to go back, Gail, to your thoughts on the virtual primary care offering. So one, can you talk about how that product will be priced? And then secondly, is it going to be in all 14 of your markets? Or will this be more of a limited type of offering initially? And then lastly, as I think about virtual primary care, how do we think about the cost trends there and the potential savings when we think about those types of products?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the question, Lisa. I think it's actually a really important one as we think about the next generation of where products are going to go. One of the things that's happened is the pandemic has really highlighted the need for these virtual care services.

We shared with you quite some time ago our JV with Hydrogen Health, and we've been in the market actually working closely with our partners to deliver those services, particularly best-in-class urgent care, primary care using chat and text.

And what we're talking about now is, I'll call it, the next generation of virtual primary care. We've gotten some experience on our early entree with virtual care over the last year. And now we're continuing to evolve that. So we did launch, as I shared in my remarks, this virtual-first services.

I think what's interesting and unique about this is they're integrated with our high-performance network, and that's really important. And we're seeing a lot of traction in our high-performance network.

And I know we've shared previously, our high-performance network has anywhere from 12% to 15% cost structure differential. And as you think about virtual primary care added to that, we expect those to sort of be the starting point of what we can gain traction on. So I'm really encouraged by this initial launch. We're going to continue to, I think, innovate and evolve from that.

In terms of where we're doing it, we are working in our Blue states. We're in -- most of our markets right now, we have offerings, not in every county, but we're going to continue to expand that as we certainly learn about it, look at the alignment. A lot of this does, as I said, rely on our high-performing networks and our ability to use both virtual care as well as our high-performing networks.

And just to give you a sense of what it is, I mean, we're looking at the offering to cover virtual visits with a zero co-pay simplified plan design, 24/7 service to leverage the network. Value-based contracts are at the core of this to drive that cost structure differential. And again, we would expect at least 15% below traditional products. But again, that's a starting point, and we're going to gain experience with this.

And there's been a lot of interest. We've seen a significant amount of interest. We've offered it first in our fully insured risk-based business. And now our national fee accounts are interested in embedding this in their offerings.

And as you heard I think from my opening comments and then what Morgan said, we've had one of our strongest ever national account selling seasons. And again, I do credit the innovation we're bringing around digital to the success we're having there and just a fundamentally strong differentiated cost structure really driven by high-performance networks.

So thanks for the question. We are excited and optimistic about how we think that this can drive future trend and future opportunities for our clients. So again, more to come on this, but you'll be hearing a lot more about it in the coming months as we gain more traction with our employers. So thanks for the question.

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Operator

Next, we'll go to the line of Gary Taylor from Cowen.

Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

Can you hear me?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

We can. Thank you.

Gary Paul Taylor - *Cowen and Company, LLC, Research Division - MD of Health Care Facilities and Managed Care*

Okay. Sorry. As I was thinking about 2022, I wanted to ask about something I thought would be a tailwind and something I thought would be a headwind, but you didn't mention, so just some color would be helpful.

Was thinking that the special enrollment period on exchanges, if that were to eventually go away, would potentially be a tailwind for that business. But you said you're performing in line there, so maybe you don't see that as a material tailwind.

And then on the Medicaid side of the house, you did mention redeterminations as a headwind. But we certainly note for you and across the board, that seems to be a population that's not just vaccine hesitant, but utilization hesitant, and the MLRs look really strong there.

So I was thinking there could be headwind, not just on redetermination, but on margin as well. So just wanted some color on those 2 things.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Sure, Gary. Thank you for the questions. So let's see if I can address these appropriately.

With the special enrollment period and the exchanges, we have talked about the fact that exchanges are a nice strategy for us. We're being very, very prudent in terms of our approach. We're going from having, I think, just a little bit over 70% of our counties covered to just over 80% of our counties covered next year.

And we do expect some nice membership growth associated with the individual. But I would say that is all captured in just our core underlying growth and the fundamentals of the business performing extremely well. We expect all of our businesses to grow, and individual is no different.

In terms of the Medicaid and the redeterminations, the headwind that we referenced really has to do with Medicaid membership, but this is my opportunity to again talk about the balance and resilience of our membership and our catcher's mit.

And we may be able to turn that headwind into a tailwind depending on where those folks go. We do believe that once redeterminations start that we will be able to maintain a significant amount of that membership within an Anthem product.

We offer a product for every American in every situation. Young, old, rich, poor, sick, healthy, we have a product for all of them. And right now, there's a significant number of members within our Medicaid plans.

And after redetermination occurs, Medicaid may shrink a little bit, but that means that there's really some significant growth opportunities in other lines of business.

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So I didn't spike it out specifically because we think it's a driver, and we could actually turn a headwind into a tailwind. So thank you for the question.

Operator

Next, we'll go to the line of Stephen Baxter from Wells Fargo.

Stephen C. Baxter - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

You touched on this a little bit, but was hoping you could expand on the national account outlook for next year. I would love to hear more about what you think is driving that growth and what you're seeing in terms of competitive dynamics in that market.

And then just to clarify, was that commentary influenced at all by what insight you're getting from your clients in group expectations? Or was that purely a comment about the new accounts that you're winning?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

I'll ask Morgan to address that.

Morgan Kendrick - *Anthem, Inc. - Executive VP & President of Commercial and Specialty Business Division*

Yes. Steve, thank you for the question. And as Gail noted, I mean, the national business continues to perform exceptionally well. And I also noted, there was a bit of a dampening in the RFP activity. It was down. But when you think about it, it was down in numbers of RFPs. It was up in membership, and Anthem had an exceptionally successful year up market, did quite well.

I think one of the other things that was notably observed is record number of customers that went out for a -- that went from a multi-partner health care solution to a single-partner health care solution in selected Anthem.

And to get directly to your question, to me, we have to earn the right to win every day. And I think when you look at our assets and how they're resonating in the market, you look at the advocacy-based whole health, digital solutions are winning.

When you think about Sydney, Gail mentioned earlier that we have 50 customers that were Sydney Preferred, which is theoretically our digital front door or we could call it our gateway to health. It's the entry point for all the other assets that we deliver.

Also when we think about '23, I mean, these assets continue to be innovated upon. And like I said, it's been coming up on us to earn this right to win. We don't take it lightly, but the market is loudly voting with their feet. And so we're excited about where we're headed in '23.

Operator

Next, we'll go to the line of Rob Cottrell from Cleveland Research.

Robert Sohngen Cottrell - *Cleveland Research Company - Research Associate*

Wanted to ask about, Gail, you mentioned behavioral briefly. Curious if you can provide a little bit more comment on Beacon cross-selling efforts and how that's going across both the Government and Commercial businesses.

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Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Great. Thank you. I'll offer a quick comment, and then I'll ask Pete to comment on that because it sits within our Diversified Business Group.

But overall, we know that there's been a significant need for behavioral health. And what I want to just touch on briefly is the tie that Morgan said to whole health.

And we -- Beacon has always been a very strong player in the Medicaid space, and we're continuing to integrate it into our overall Government business, but it's got a big upside in the commercial space.

So maybe, Pete, some early commentary from what you're seeing.

Peter David Haytaian - *Anthem, Inc. - Executive VP and President of Diversified Business & IngenioRx*

Yes. No, I appreciate it, Rob. We -- just to remind everybody, Beacon serves about 44 million members, 13 million of which is Anthem. The services are very broad. And as I said, Beacon is an industry-leading assets. It's been a leader in the behavioral health space for a long time.

So as it relates to some of the services from mild, moderate to acute mental health, treatment for family support, crisis prevention, opioid abuse, SMI, EAP programs, it's a broad portfolio, which really will serve, I think, Anthem really well.

The other thing I'll say, and this was very important to us and really worked out from a strategic perspective, but the pandemic obviously really accentuated the need for behavioral health. We experienced 3x more people reporting symptoms of anxiety and depression in this period, 2.5x more people reporting suicidal ideation. And with opioid abuse, there was a very significant increase. And so that plays really well across our portfolio.

We obviously have a broad portfolio across Medicare, Medicaid and Commercial. The integration process is going really well between the parties. We actually, as it relates to penetrating the Anthem business, have embraced a lot of the clinical programs and expertise of Beacon as we integrate.

We also, in my old life, on the Commercial side, worked on new product offerings, a product called [Behavioral Health Advantage], which is being deployed in 2022. And then obviously, as it relates to our Government program business, working very closely with Felicia and the Government team and the Medicare team on a post-acute care product.

And this is just the beginning. I think there'll continue to be tremendous opportunities around behavioral. One of the areas that I'm very focused on is also virtual and the importance of virtual. We've seen an exponential increase in virtual services as it relates to Beacon, and penetrating our portfolio in that regard will become very important going forward. I appreciate the question.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks, Pete. And the only thing I guess I would add is as you think about the commercial market, the next generation of EAP service is an area that we're highly focused on. And you've heard us share our strategy about subsegment market within the Commercial business.

So we see it clearly in the employer space expansion, student space and military services space, where we see the demand and need for behavioral health services dramatically increasing as a result of the pandemic.

Operator

Next, we'll go to the line of Ricky Goldwasser from Morgan Stanley.

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Rivka Regina Goldwasser - *Morgan Stanley, Research Division - MD*

A question on utilization. John, you talked about the fact that September, you saw a dip in non-COVID utilization. How is it trending in October? And if I recall, last quarter, you said that the MLR guidance at the low end of the range assumes that, I think, going to end the year above baseline.

So how are we trending there? And then in line with that, if we think about sort of 2022, your commercial pricing, what did you embed in your assumptions regarding return of core utilization?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Thank you for the question, Ricky, and maybe I'll talk a little bit about the fourth quarter and then turn it over to Morgan to talk a little bit more about 2022.

But in terms of the fourth quarter, our expectations and our guidance is that the COVID and non-COVID combined will continue to be above baseline each month in the fourth quarter, so obviously, the entirety of the fourth quarter being above baseline.

We are seeing very good trends. As I stated, we had the spike in August. It started to decline coming into September. Non-COVID utilization was lower in September than we had expected. October is relatively close to expectations at this point, but there's a lot of uncertainties in the fourth quarter.

The Delta variant is still out there, and we want to be very respectful for it as well as any other new variants that may or may not exist. And we are expecting an increase in testing, an increase in some of the vaccinations and booster shots, especially with the kids.

It's unclear right now exactly when the 5-year-olds will be eligible for vaccination, but we want to make sure that we're cautious in terms of our guidance associated with that cost structure as well.

And as you -- I'm sure you already know, the fourth quarter, just on a normal basis, has a higher seasonality in terms of MLR, and so that's obviously factored in as well. But I'd say at the end of the day, we've been very cautious and very prudent in our fourth quarter expectations, with a combination of COVID and non-COVID combined being above baseline.

Morgan?

Morgan Kendrick - *Anthem, Inc. - Executive VP & President of Commercial and Specialty Business Division*

Yes. John, thank you. And Ricky, thanks for the question. I would -- John covered most of it, I think. I would say, looking next year, it's not indifferent.

We remain confident in the approach and our discipline. And consistent with what we've done quarter-over-quarter, year-over-year, we're pricing to forward view of trend. Certainly, that's always respectful of market uncertainty.

And as John indicated, COVID is going to be around for a while. We've done extensive work to assess various scenarios and how that could play out. But nonetheless, we feel quite confident in the way we price the '22 business. So thank you again for the question.

Operator

Next, we'll go to the line of Kevin Fischbeck from Bank of America.

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Kevin Mark Fischbeck - *BofA Securities, Research Division - MD in Equity Research*

Just wanted to dig in a little bit into the redetermination headwind that you mentioned. Is there any way for you to kind of size how much membership today you think you have due to redeterminations, how you're thinking about net losses, like how much it might pick up on the exchanges in the commercial market?

And then as it relates to Medicaid rates, how you feel Medicaid rates broadly, particularly again if redeterminations coming in, how that can influence what rates are appropriate given the risk pool of those 3 aspects?

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Sure, Kevin. I'll see if I can start out and respond to your questions.

But in terms of the redetermination, we're really taking a look at where we think these members are going to go, and there's been a lot of other studies out there that we think are relatively credible. But we believe that by the end of next year, and that assumes that redeterminations do start to occur maybe late -- early second quarter of 2022, that we'll still have a good 35% of those folks will still be maintained on the Medicaid roles.

We're looking at about 45% of them going back into employer-sponsored plans and that would take the -- about 20% being eligible for subsidized coverage on exchanges. And as I stated, we have products and all those things, and we expect to keep and maintain our fair share. So we feel very good about our opportunity and our ability to keep the membership within the Anthem family over the course of the next year.

And then as it relates to the Medicaid pricing, we learned a lot a few years ago in terms of working with the states, being very proactive and ensuring that we're having actuarially justified rates, and we'll certainly continue to do that.

It's very early in the rating season, but we're comfortable with what we're seeing to date in building our financial plan with the prudent assumptions that we believe are well supported. And the states are very -- let's say we're having some very productive conversations with the states as well about ensuring that we get actuarially justified rates throughout the future.

The only other thing I'll say about the Medicaid is there are a lot of financial measures that are in place now that far more than used to be in place in terms of collars, corridors and things like that, that really help maintain the profitability and maintain the stability of that marketplace. So really need to look at Medicaid over a long period of time. Thank you, Kevin.

Operator

Next, we'll go to the line of David Windley from Jefferies.

David Howard Windley - *Jefferies LLC, Research Division - MD & Equity Analyst*

My question is about kind of your strategic investment preference. Gail, you've emphasized that for Anthem, your preference is to partner rather than own your provider networks.

I'm wondering if you could shine maybe a brighter light on how your investments in behavioral and digital and some of the other areas that you've mentioned kind of accelerate your strategy and drive better return for Anthem, then the possibility of owning and controlling some of your key providers. Just I'm sure that those others are high return, but in what way are they for Anthem?

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thanks for the question, David. A couple of things. I think you hit on many of the core drivers.

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First and foremost, as we've said, because of the density that we have in our markets, we believe that investing in partnerships makes the most sense because we believe we can drive better membership, better Stars ratings. And with 1 in 8 patients being an Anthem member, the density of working with those providers provides us a good return.

And also remember, we can participate in the profit stream there by embedding some of our DBG assets, our other assets around IngenioRx. And so it's not that we're walking away from participating in those profit streams. We actually think we have a much more capitally efficient use by investing, partnering and then pulling through the other assets that we have invested in.

And so that's the core of our strategy, and it's worked really well. And we're continuing to accelerate that strategy. And as I shared, we expect to have 70% in value-based arrangements, 30% in full-capitated arrangements. It's a big driver for our Medicare Advantage business. But quite frankly, all of our benefits businesses are going to have an opportunity there.

In terms of other areas that we're investing in, we've said that we really want to transform ourselves, and part of that transformation is building this digital platform for health. The opportunities are inside of Anthem as well as with our Blue partners. And we see, again, opportunities to commercialize that. That's going to be over the next several years.

One of the reasons I elevated Rajeev Ronanki, who has been leading this area, is to really explore those opportunities. Again, we've been doing that inside of Anthem, but we think there's an opportunity with our partners to do more areas around Sydney, for example, Sydney Health, which is gaining great traction; our Health OS, which we think could be a broader opportunity for the health ecosystem.

We've done quite a bit of investment in Stars and HEDIS quality improvement in AI and analytics, digital therapeutics. So there's a broad range of things around the digital capabilities and ecosystem we're building.

But in terms of the value, again, we look at the most efficient way to deploy our capital, where we have our strengths, which is the density in the markets we serve and how it fills, I think, our strategy and then how we pull through Ingenio, DBG and other services, which really are not -- those are still immature in the sense that we haven't pulled them through to the potential that they have, and excited about Pete's leadership there given his understanding of both Commercial and the Government business and the opportunities that exist.

So thanks for the question. Again, we think it's a really strong future growth opportunity for us.

Operator

Next, we'll go to the line of Steven Valiquette from Barclays.

Steven James Valiquette - *Barclays Bank PLC, Research Division - Research Analyst*

So I have another question on the lower-than-expected non-COVID utilization for the third quarter. I guess, I was curious if you have any additional color by medical cost category, whether it's inpatient, outpatient, pharmacy, et cetera.

What I'm really curious about is specifically whether any cost category had a more notable falloff versus baseline when thinking about the sequential trends in 3Q versus the trends back in the June quarter.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Thanks for your questions, Steve. In terms of the specificity, I would say that what we saw in September was that inpatient non-COVID probably dropped the most of all of the different buckets that you stated. We don't view any of these things as being changing to the ultimate baseline.

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There were announcements that were made at the beginning of September that certain facilities were deferring or canceling some elective procedures in order to ensure that there's appropriate bed space.

So while certainly we saw the impact on the financials, we do monitor pre-ops, pre-surg, various other things and don't really view that situation as a significant change to the baseline going forward. So thank you for the question.

Operator

Next, we'll go to the line of Scott Fidel from Stephens.

Scott J. Fidel - *Stephens Inc., Research Division - MD & Analyst*

Just wanted to ask about the additional group MA contracts that you called out, that you've added in the 3Q for 2022. Any chance that you can maybe size the number of lives that you're expecting from those?

And then just on the group NYC contract implementation. I know you're still working on membership and things like that. But interested if you can maybe ring fence for us the dilution you're thinking about for 2022 against that 12% EPS growth off the baseline you talked about, that would be helpful as well.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you. Go ahead. I was going to ask Felicia to respond on your MA questions first, and then we'll have John. Thank you.

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Good morning, and thank you for the question. I'll say, Scott, that, at the end of the day, the additional contracts that Gail referenced, we're certainly pleased with the opportunity to add those to our business for 1/1/22.

They are not going to be material drivers of their own, but what they do is that they represent the ability for us to continue to penetrate that pipeline that we have with our Commercial customers. So as you know, our strategy has always been to be able to penetrate the inherent Commercial pipeline that we have, so that we're able to keep members Blue for life.

And what we've done in terms of that third quarter is to have a very robust pipeline that gives us some very nice sized group, certainly much smaller than anything you've seen around City of New York or anything else. But they are not going to be material drivers and fit, I would say, very closely with what we consider the sweet spot when we look at the opportunities to grow MA going forward.

We still consider this a very strategic asset for us and being able to grow that business as we go forward. Once again, we are very poised to deliver on the launch of the City of New York business for 1/1/22 and are certainly pleased with the opportunity to be able to continue to support New York retirees who have been customers for Empire for a long period of time.

So this is another, I would say, affirmation of our strategy around what we're doing with respect to group MA business. And additionally, the pipeline for this business remains strong as we head into 2023.

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And with that, I'll turn it over to John to talk about the dilution.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

No. Thank you, Felicia. And Scott, I appreciate the question. Unfortunately, this is a third quarter call, and we're really not going to get into specificity associated with guidance for 2022. We'll talk in more detail about that in the next quarter.

And as I said, New York is still going through their enrollment process, so we don't have all the information quite fine-tuned. But what I would ask you to do is to really evaluate the tailwinds and the headwinds that I've provided in their entirety.

And then after you adjust for the outperformance in investment income, we think that those headwinds and tailwinds pretty much offset each other and will allow us to achieve our 12% to 15% growth for the future. Thank you.

Operator

Next, we'll go to the line of George Hill from Deutsche Bank.

George Robert Hill - *Deutsche Bank AG, Research Division - MD & Equity Research Analyst*

I guess, this is probably going to be a '22 question as well, John, but I was wondering if you could frame any numbers around the success in Ingenio given all the positive commentary? I would just love any comments on how you guys are thinking about the opportunity with generic Humira and biosimilars in general.

John Edward Gallina - *Anthem, Inc. - Executive VP & CFO*

Yes. Thanks for that question. Yes, as you referenced, as it relates to Ingenio, we're really pleased with the performance. In large part, the performance this year was due to strong membership and volume across the entire portfolio.

So all our lines of business and utilization is also tracking to expectation. So we feel good about that heading into 2022 as well as the growth that I talked about and our focus on penetrating the ASO business. So we feel good about the Ingenio business heading into 2022, the growth and then the stability of the business in terms of its margin contribution.

Operator

Next, we'll go to the line of Joshua Raskin from Nephron Research.

Joshua Richard Raskin - *Nephron Research LLC - Research Analyst*

How do you think about the No Surprises Act around sort of your strategy around network contracting and maybe potential changes in the balance of power between payers and providers in local markets? And specific to Anthem, do you think sort of best cost position, biggest discounts, is that helpful or harmful as you think about the future?

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Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Well, thanks for the question, Josh. In terms of the overall -- our posture, we have had a cost structure advantage -- unit cost structure advantage. But as you heard in my comments, given our market density, we are moving heavily towards value-based payment. I mean, that is at the core of our strategy. So that's an alignment of working with care providers in a much different way.

And again, we believe both the investments we're making in primary care, the investments we're making in downstream home care, other things through our Diversified Business Group, IngenioRx, that we have an opportunity to bring those assets together uniquely and then leverage the density originally in our Commercial business, but now our Medicaid business and our Medicare Advantage business.

So we feel we've made really good strides on that, and we actually see a better alignment with care providers than we've ever had in the past. So quite frankly, I'm optimistic about where we're heading. And I think that, that really is the core of our strategy. So thank you for the question.

Operator

Next, we'll go to the line of Whit Mayo from SVB Leerink.

Benjamin Whitman Mayo - *SVB Leerink LLC, Research Division - MD of Equity Research & Senior Research Analyst*

Last year, you guys in the industry waived a lot of coinsurance requirements, and just remind me what you're doing now. Are you -- are we back to 2019 co-pay coinsurance member requirements? Are we still waiving on MA for primary care?

I guess, really, the question here is thinking through 2022 and any headwinds or tailwinds as we think about any changes in member cost sharing.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you for the question, Whit. Certainly, during the heart of the pandemic, where non-COVID utilization dropped significantly, and we also wanted to be a very thoughtful participant in what was happening, we did a number of waiving of co-shares, as you know, as part of our response across all of our businesses.

As we headed into 2021, those normal -- I'll call it, normal course came back into play mostly because non-COVID utilization returned back to normal levels in many instances in total, and there wasn't a significant drop. So from that perspective, we're following the policies that we have across the board right now and then heading into 2022.

Operator

And our final question, we'll go to the line of Frank Morgan from RBC Capital Markets.

Frank George Morgan - *RBC Capital Markets, Research Division - MD of Healthcare Services Equity Research & Analyst*

There's a lot of discussions about labor with providers. And I'm just curious, are you starting to have discussions when you start to negotiate with the providers about their wage inflation outlook they're seeing? And what is your sense of that? And then secondly, just any early initial insights into what might be resonating so far in the annual enrollment period.

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Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Yes. Thanks for the double question. The first one around the labor market, clearly, across all labor markets, people are seeing pressure on the ability to get employment levels up to where they need to, and then there is some pressure.

In terms of our negotiated contracts, we do those over 3-year cycles, and we're also very focused again on value-based payments. So I think the big opportunity is to move away from individual unit cost increases, which has been the historical, I guess, trend in the industry to really bundling value-based payment, paying for episodes and procedures, and that's really where we've been.

So at this stage, what I'd say is, look, we're always in a dynamic environment in terms of our negotiation, but we feel we've factored that into how we're looking at the forward view of everything that's going on.

And we do see the biggest opportunity is not just only managing unit costs, but really managing value in part of the value-based payment because there's a much better alignment of taking -- doing the right services at the right time, and that's our view.

But in terms of our for review, again, we're taking into consideration everything. And again, many of our largest contracts are on a 3-year basis, so not all of them obviously are in play right now.

Thanks for the question. I'm going to ask Felicia to talk a little bit about our annual enrollment period, which I think was your second question.

Felicia Farr Norwood - *Anthem, Inc. - Executive VP & President of Government Business Division*

Yes. Frank, and thank you for the question. As you know, we're in the early days of the annual enrollment period. And we're actually very pleased with what we've seen so far with respect to how we are positioned competitively in terms of our benefits and the plans that we're offering and feel that we'll be able to produce another year of double-digit growth in our individual Medicare products.

I'll say we're especially pleased with our supplemental benefit, our over-the-counter offerings. These are the things we call our essential extras, everyday extras. We give members an opportunity to choose from a portfolio of benefits that allows them to address their needs, particularly the social drivers of health.

The other thing I will say is that we are also pleased with how we are positioned with respect to our D-SNP product, where we have a very strong value proposition considering our deep knowledge and experience between Medicare and Medicaid and being able to serve chronic and complex populations.

So when we think about where we are today, a little bit less than 5 days in, we feel good about our positioning and look forward to having a very successful AEP.

Gail Koziara Boudreaux - *Anthem, Inc. - President, CEO & Director*

Thank you, Felicia, and thank you again for your interest in Anthem. As we close the call, I want to recognize our associates. This continues to be a challenging year. Each day, they step up and they step out to live our mission and values and serve our members and communities with care and compassion.

I'm impressed and grateful for what they do all the time. We work hard to create a culture at Anthem, where everyone feels valued, and their contributions make a difference. So I'm particularly proud to see us recently named among America's 100 Great Places to Work and Healthiest 100 Workplaces.

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I'll leave you with this. There's increasing opportunity for Anthem to offer elevated personalized experiences as we holistically address what our society needs to be and stay healthy. We're building for tomorrow and beyond, evolving the business to be more digital, moving fast, thinking differently and operating with discipline.

Personally, I'm extremely optimistic for our future. Thank you.

Operator

Ladies and gentlemen, a recording of this conference will be available for replay after 11:00 a.m. today through November 19, 2021. You may access the replay system at any time by dialing (800) 945-7761, and international participants can dial (203) 369-3954.

This concludes our conference for today. Thank you for your participation and for using Verizon Conferencing. You may now disconnect.

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